

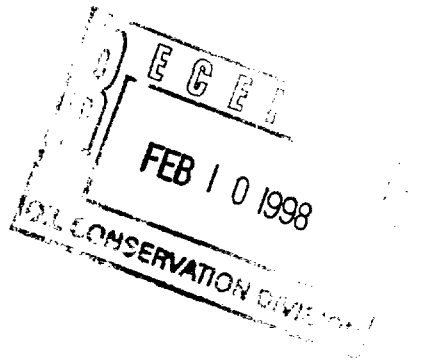
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February 10, 1998



Hand Delivered


Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 11912; Application of Maralo Inc. for an unorthodox
oil well location, Eddy County, New Mexico

Dear Mr. Stogner:

Enclosed is the proposed order of Maralo Inc. As noted at the
hearing, Maralo has a farmout on this acreage expiring March 15th,
and thus any decision before then would be appreciated. Thank you.

Very truly yours,

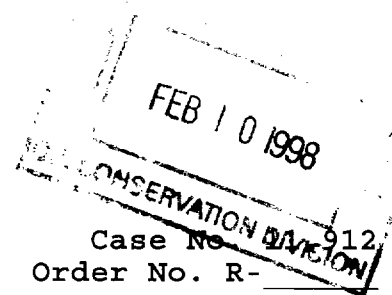

James Bruce
Attorney for Maralo Inc.

cc: William F. Carr w/encl.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

APPLICATION OF MARALO, INC.
FOR AN UNORTHODOX OIL WELL
LOCATION, LEA COUNTY, NEW MEXICO.



ORDER OF THE DIVISION
(Proposed by Maralo Inc.)

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 22, 1998 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of February, 1998, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter hereof.

(2) The applicant, Maralo Inc. ("Maralo"), seeks authority to drill its Gold Rush "30" Fed. Well No. 8 at an unorthodox oil well location 2310 feet from the South line and 2600 feet from the East line (Unit J) of Section 30, Township 23 South, Range 30 East, NMPM, Eddy County, New Mexico, to test the Delaware formation. The NW¼SE¼ of Section 30 will be dedicated to the subject well, forming a standard 40-acre oil spacing and proration unit.

(3) Texaco Exploration and Production Inc. ("Texaco"), an offset operator to the west of the proposed location, appeared at the hearing in opposition to the application.

(4) The proposed well is located in (i) the Nash Draw-Brushy Canyon Pool as to the Brushy Canyon member of the Delaware Mountain Group, and (ii) the Undesignated Southwest Forty Niner Ridge-Delaware Pool as to the Bell Canyon and Cherry Canyon Members of the Delaware Mountain Group. Both pools are governed by Rule 104.C.(1) of the Division's General Rules and Regulations, which requires standard 40-acre oil spacing and proration units, with wells no closer than 330 feet to a quarter-quarter section line.

(5) The proposed well is located 40 feet from the nearest boundary of the spacing unit, which is 290 feet closer than allowed by Division rules.

(6) The applicant presented the following land, geologic, and engineering evidence:

(a) The proposed location was required by the United States Bureau of Land Management ("BLM") due to topographic and archaeological reasons. The BLM would not approve any well location in Unit J of Section 30 except the proposed location.

(b) The primary zone of interest in the Delaware is the Lower Brushy Canyon "Loving" Sand. The Bell Canyon is a secondary objective. Both sands are north-south trending reservoirs.

(c) The optimum well location in the Loving Sand in Unit J of Section 30 is at an orthodox location, because the sand thins rapidly as you move to the west of an orthodox location. **Maralo Exhibit 5.** However, the BLM will not allow an orthodox location.

(d) The Texaco Remuda Basin "30" State Well No. 3, in Unit K of Section 30, and the Maralo Gold Rush "30" State Well No. 2, in Unit F of Section 30, are dry or non-commercial in the Loving Sand. Little if any of Texaco-operated Unit K of Section 30 is productive in the Loving Sand.

In addition, Delaware wells need to be frac'd, and fractures follow the path of least resistance, which will be to the east or north-south, away from the Texaco acreage.

As a result, a penalty on production is unnecessary in the Nash Draw-Brushy Canyon Pool.

(e) Directionally drilling a Delaware well to an orthodox location in Unit J is not economical.

(f) Unit J is also prospective in the Bell Canyon. However, Maralo's practice is to produce the deeper zone, which may take 4-6 years to deplete. By the time the proposed well is completed in an uphole zone, Texaco will have produced the vast bulk of its Bell Canyon reserves.

(g) Approximately 25% of any Bell Canyon production from the proposed well will come from the Texaco-operated acreage. As a result, a penalty of approximately 25%-40% on production from the Southwest Forty Niner Ridge-Delaware Pool is fair and reasonable.

(7) Texaco's geology indicates that drainage in the Bell Canyon will trend north-south, along the axis of the reservoir,

minimizing any adverse effect of the unorthodox location.

(8) Texaco proposed that the location be denied, or if the proposed well is drilled, a penalty of 88% should be assessed against the well based upon the footage encroachment towards its acreage. Such a penalty would effectively prevent the drilling of the proposed well.

(9) The evidence and testimony in this case indicates that unless a well is drilled at an unorthodox location in the NW¼SE¼ of Section 30, the interest owners therein will not have the opportunity to produce their fair and equitable share of reserves in the reservoir.

(10) The proposed unorthodox location should be approved, provided that, in order to protect the correlative rights of Texaco, a production penalty should be imposed.

(11) The penalty proposed by the applicant is fair and reasonable.

(12) Approval of the proposed unorthodox location, subject to the above-described production penalty, will afford the applicant the opportunity to produce its just and equitable share of oil and gas from the subject pool, will prevent economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Maralo Inc., is hereby authorized to drill its Gold Rush "30" Fed. Well No. 8 at an unorthodox gas well location 2310 feet from the South line and 2600 feet from the East line of Section 30, Township 23 South, Range 30 East, NMPM, Eddy County, New Mexico, to test the Delaware formation (Nash Draw-Brushy Canyon Pool and Southwest Forty Niner Ridge-Delaware Pool).

(2) The NW¼SE¼ of Section 30 shall be dedicated to the well, forming a standard 40-acre oil spacing and proration unit for said pools.

(3) The Gold Rush "30" Fed. Well No. 8 is hereby assessed a production penalty of 40% (60% allowable) in the Southwest Forty Niner Ridge Delaware Pool. The penalty shall be applied toward the well's depth bracket allowable. No penalty shall be assessed against the well in the Nash Draw-Brushy Canyon Pool.

(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

FEB 10 1998

RESERVATION

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

KATHLEEN GARLAND
Director

RECEIVED
FEB 12 1998